

Testimony Of
Mark D. Williams
on behalf of the
National Cotton Council of America
before the
House Agriculture Committee
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My name is Mark D. Williams. I operate a diversified cotton, wheat and grain farm in Farwell, which is located in the panhandle of Texas. I am a member of the National Cotton Council's Board of Directors and serve on it's Executive Committee. My testimony today reflects the consensus view of all seven segments of the U. S. cotton industry, including producers, ginner, seed crushers, warehousemen, merchants, cooperatives and textile manufacturers.

Mr. Chairman and members of the panel, I want to express our sincere appreciation to you, your colleagues and your dedicated staff for the exceptional effort you have made to hold hearings, to process what you have heard from witnesses and to prepare a timely concept paper for our review and comments. Given the pressure of time, budget and WTO commitments, the concept paper reflects a commendable job.

In our opinion, the farm policies outlined in the Committee's concept paper are balanced and equitable and establish a very creditable foundation from which to build new farm programs that will provide a more effective safety net for farmers, that will enhance the industry's competitiveness and benefit the rural economy and consumers. From cotton's perspective, there is little about the basic farm policy concept of your paper with which to take issue. Our industry supports many aspects of the Committee's work product:

- A marketing loan keyed to the world market price;
- Retention of cotton's 3-step competitiveness plan;
- Retention of fixed, decoupled payments;
- A new counter cyclical payment program;
- An option for growers to update their payment bases; and
- Retention of full planting flexibility, with no mandatory supply management requirements.

The proposal also retains marketing certificates, establishes separate limits for each category of benefits, and we assume the 3-entity rule for payment limitations is retained. The Committee's paper also offers improvements in conservation, trade, research and rural development programs that are important to our members.

Given the budget limitations within which you worked, you have done an excellent job to construct a long-term farm policy to help farmers cope with subsidized competition and changing market conditions.

We understand the funding levels established in this year's budget resolution limit these proposals. And while cotton in particular, and agriculture in general, were pleased that Congress substantially increased agricultural spending, it remains the case that much of agriculture is experiencing serious economic stress, as a result of escalating input costs, weak demand, a strong dollar and resultant low prices. The National Cotton Council and several agricultural groups have observed that commodity programs need more funding and strengthening in order to restore economic viability for our farmers. Therefore, at the risk of sounding ungrateful, I would urge the Committee, as it prepares to debate the particulars of this concept paper, to consider some additional concerns of the cotton industry.

For example Mr. Chairman, the price of cottonseed continues to be weak. Cotton producers rely on cottonseed revenue for about 13% of total returns and the value of cottonseed and cottonseed products is dictated more by production of soybeans and other major oilseeds than by cotton production. So, cottonseed prices can be weak even when cotton fiber prices are relatively strong. Accordingly, adjustments to compensate growers when cotton fiber prices are low do not, alone, adequately compensate them for both low fiber prices and low cottonseed prices. We support the inclusion of a cottonseed assistance program, similar to that in the previous two economic assistance packages, but triggered by price rather than subject to a fixed funding level.

Since our February testimony, the adverse effects of a strong dollar on our industry have intensified. We have shared our concerns about this with members of Congress and the Administration in recent weeks. It is becoming increasingly important for some action to be taken to offset the devastating effects of the strong dollar on our industry, particularly the textile sector. Analysis by National Cotton Council economists suggests that there is essentially a one to one relationship between the strength of the dollar and the rate of cotton textile imports. Said another way, for each 1% increase in the strength of the dollar, there is a 1% increase in the rate of cotton textile imports and a corresponding decrease in U.S. mill consumption of cotton. In the last 6 months 45 cotton textile mills have closed, 15,000 jobs lost and domestic mill consumption which once reached 11.4 million bales has fallen to an annual rate of 8 million bales, reflecting the possibility of a permanent loss in domestic consumption due to mill closings. We believe that the 1.25-cent threshold currently used in the formula for computing Step 2 values needs to be eliminated in new farm law as an initial action to help our industry deal with the devastating impact of an increasingly stronger dollar.

The cotton industry remains opposed to payment limitations but, if they cannot be eliminated, supports the establishment of a new category of limits for counter cyclical payments. We would observe that the establishment of a separate \$75,000 cumulative limit could result in the denial of benefits to farms with multiple crops when prices are extraordinarily low, as they are today, since soybeans are eligible for the counter cyclical payment and are also included in the cumulative limit. We also note that soybeans are now eligible for a fixed payment but there is no corresponding increase in the limitation associated with fixed payments, so there could be some inequities among producers depending on their cropping mix.

Mr. Chairman, while we don't know the final costs of provisions set forth in the concept paper or how they will be classified within the World Trade Organization, we hope there will be opportunities to shift some income support from the counter cyclical category to the fixed, decoupled category, if necessary, to meet our WTO commitments. We are anxious to work

with members of the Agriculture Committee and the Administration to (a) ensure that the interests of U.S. agriculture are paramount in decisions concerning which “box” agricultural spending is to be placed, and (b) make any adjustments, or shifts, that may be necessary to meet our WTO commitments.

The National Cotton Council has previously gone on record as favoring Trade Promotion Authority (TPA), but we do not support this authority unconditionally. We believe it is important for TPA to be conditioned upon a commitment by the Administration to negotiate in the best interest of U.S. agriculture and work closely with Congressional leaders, keeping them informed and soliciting their advice and counsel on all WTO-related matters.

We were concerned, as you were, about the Administration’s decision to report Marketing Loss Assistance as amber box spending without discussing this matter with congressional leaders. We commend you for registering your dissatisfaction with that ill-advised action and we support your continued involvement in dialogue with Administration officials to help restore their commitment to WTO negotiations that will truly serve the interests of U.S. agriculture. We believe it is imperative that our negotiators not establish negotiating objectives or enter into new agreements that would restrict this Committee’s ability to write effective farm policy.

Mr. Chairman, extra long staple cotton producers in Texas, New Mexico, Arizona and California have not been immune from the difficult economic circumstances facing the cotton industry. Those producers also need improvements in their program. We support continuation of the ELS non-recourse loan program with the current loan rate frozen. We also support continuation of the ELS competitiveness provisions and support full funding for that program. We also support establishment of some form of counter-cyclical payments for ELS cotton that are commensurate with those that may be established for upland cotton. We are optimistic that such an ELS program would not add appreciably to total farm program costs and would help to maintain equity between upland cotton, ELS cotton and specialty crops in the western cotton producing region.

We support the increase in MAP funding contained in the concept paper and proposed reauthorization of other export assistance programs. We remain supportive of a relatively modest increase in funding for the Foreign Market Development program. At the very least, we suggest certain legislative improvements that will shore up the status of that program within the Administration and provide the opportunity for efficient use of funding made available for export assistance programs. We also recommend a few changes in the export credit guarantee program that we believe will improve that program as well.

We support the approach the Committee has taken with respect funding and enhancement of existing conservation programs. Conservation and environmental stewardship are important components of overall farm policy. The CRP, WRP and EQIP programs have enabled our producers to better control soil erosion, improve water quality and enhance wildlife habitat. However, because producers face such an uncertain financial future, it is important that this bill not lose sight of its primary goal – restoring the economic potential of U.S. agriculture.

Mr. Chairman, we understand that \$73.5 billion can be stretched only so far. You and your colleagues have done an excellent job of crafting a proposal to invest in agriculture’s future by restoring competitiveness and providing an opportunity to return to profitability. We want

to continue to work with you to find ways to fund program provisions and to optimize the benefits from the dollars that are available for farm programs. I want to stress again to you and to all members of the Committee how much our membership values the inclusive and open approach you have taken in this process.

Thank you for the opportunity to provide comments and recommendations.

I will be happy to answer questions.
